

NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION FROM THIS INSTRUMENT BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.

PAID UP OIL AND GAS LEASE
(No Surface Use)

THIS LEASE AGREEMENT is made effective this 12th day of December, 2008, by and between ARVIN EUGENE WATTS, and wife, MARY CATHERINE WATTS, 220 East Enon Avenue, Fort Worth, Texas 76140-3316, as Lessor, and THUNDERBIRD OIL & GAS, L.L.C., 515 Fourth Street, Graham, Texas 76450, as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called "leased premises," for the purpose of drilling beneath "using directional or horizontal drilling methods only" without exploring drilling, or operating on the surface of the leased premises. Said leased premises being described as follows:

All of that 0.805 acre lot, tract or parcel of land, more or less, being Lot 6, Ridgeview Addition to the Town of Everman, out of the Shelby County School Land Survey, Abstract No. 1375, Tarrant County, Texas, according to the Plat recorded in Volume 1858, Page 343, Deed Records, Tarrant County, Texas, and being the same tract described in that certain Warranty Deed dated January 17, 1958, from Ernest Ray and wife, Woodie Urene Ray to Arvin Eugene Watts and wife, Mary Catherine Watts, filed of record at Volume 3175, Page 568, of the Deed Records of Tarrant County, Texas;

in Tarrant County, Texas, containing 0.805 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and non hydrocarbon substances produced in association therewith (including geophysical/seismic operations). The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described leased premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term of three (3) years from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be twenty-two and one-half percent (22.5%) of such production, to be delivered at Lessee's option to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be twenty-two and one-half percent (22.5%) of the proceeds realized by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee in delivering, processing or otherwise marketing such gas or other substances, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) if at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut-in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of one dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository designated below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period while the well or wells are shut-in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

4. All shut-in royalty payments under this lease shall be paid or tendered to Lessor or to Lessor's credit in at Lessor's address above or its successors, which shall be Lessor's depository agent for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the U.S. Mail in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository agent to receive payments.

5. If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed 80 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to



Exhibit "A"

Attached to and made a part of that Certain Oil and Gas Lease dated December 12th, 2008, by and between ARVIN EUGENE WATTS and MARY CATHERINE WATTS, as Lessor, and THUNDERBIRD OIL & GAS, L.L.C., as Lessee, covering 0.805 acres, more or less, situated in the Shelby County School Land Survey, Abstract No. 1375, in Tarrant County, Texas;

In the event of conflict with the provisions of the standard form, then it is expressly understood, agreed and provided by and between Lessor and Lessee that the following terms, covenants, conditions, provisions, and limitations shall prevail and control over any other provisions in the Lease to the contrary, to wit:

1. Lessee is hereby given the option to extend the primary term of this lease for an additional two (2) years from the expiration of the original primary term. This option may be exercised by Lessee or Lessee's assigns at any time during the last year of the original primary term by paying to Lessor herein, or his heirs, successors or assigns, an additional bonus equal to the bonus dollars originally paid for this lease. Lessee or Lessee's assigns shall exercise such option by placing written notice of such action in the U.S. Mail, postage prepaid, to Lessor at the above address, or by delivery of such notice to Lessor, in either case, prior to the end of the primary term hereof.
2. It is agreed between the Lessor and Lessee that, notwithstanding any language herein to the contrary, all oil, gas or other proceeds accruing to the Lessor under this lease or by state law shall be without deduction, directly or indirectly, for the cost of producing, gathering, storing, separating, treating, dehydrating, compressing, processing, transporting, and marketing the oil, gas and other products produced hereunder to transform the product into marketable form; however, any such costs which result in enhancing the value of the marketable oil, gas or other products to receive a better price may be deducted from Lessor's share of production so long as they are based on Lessee's actual cost of such enhancements. Notwithstanding anything herein to the contrary, Lessor's royalty shall be paid monies calculated on the amount received by Lessee from a non-affiliated third party purchaser.
3. Notwithstanding anything herein to the contrary, should Lessee exercise its option under paragraph 6 of the oil and gas lease to unitize or pool this acreage for the production of oil, gas, or related substances, the entire tract must be included in the unit.
4. By the acceptance hereof, Lessee agrees that no drilling, prospecting, or mining operations will be conducted, nor any pipelines or any structures or any type facilities will be constructed upon the surface of the herein leased premises without the consent of Lessor herein; but Lessee shall have the right to prospect, drill, mine, and produce said minerals for said land by operations which it may conduct on adjoining or nearby lands through the drilling, operating, and maintaining of directional and/or horizontal wells on such adjoining or nearby lands, or by operations which it may conduct upon lands with which the herein premises may be pooled.
5. Lessor does hereby grant, transfer and convey unto Lessee a right-of-way and easement to drill and operate under the surface of and through the lands described herein or any other land adjacent thereto, regardless of any depth limitations set out therein, one or more directional wells to be bottomed on lands other than the lands described herein, for the purpose of exploring, drilling mining and operating for, developing and producing oil, gas and associated hydrocarbons under the terms of any oil and gas leases(s) now owned or hereafter acquired by Lessee, covering lands other than the lands described herein and to take any and or all other actions necessary or desirable in the rights granted herein. This right-of-way and easement shall remain in full force and effect for the primary term of the hereof and as long thereafter as used by Lessee for the purposes therein granted. Lessee agrees to use the subsurface easement only in a manner that will not damage or interfere with the use of the surface and agrees to indemnify the lessor regarding same.
6. Notwithstanding anything herein to the contrary herein contained, the payment of shut-in royalty as provided in paragraph 3 of the oil and gas lease, shall not maintain this lease in force by such payment alone for more than two (2) consecutive years beyond the primary term or any extension thereof. Further notwithstanding the provisions contained in paragraph 4 of the oil and gas lease, the annual shut-in payment amount shall be ten dollars per net mineral acre.
7. Lessee, at Lessee's own expense, will provide and maintain in force while any well is being drilled on the leased premises liability insurance in the amount of at least \$1,000,000.00 covering Lessor as well as Lessee, for any liability for property damage or personal injury arising as a result of Lessee's conducting operations. This insurance is to be carried by one or more insurance companies authorized to transact business in Texas. Lessee will furnish Lessor with certificates of all insurance required by this Lease.
8. LESSEE AGREES TO DEFEND, INDEMNIFY AND HOLD HARMLESS LESSOR, AND LESSOR'S PARTNERS, REPRESENTATIVES, SUCCESSORS AND ASSIGNS, AND THEIR OFFICERS, REPRESENTATIVES, EMPLOYEES, AND AGENTS, AGAINST ALL COSTS, EXPENSES, CLAIMS, DEMANDS, LIABILITIES, AND CAUSES OF ACTION OF ANY NATURE OR KIND, INCLUDING BUT NOT LIMITED TO CLAIMS FOR INJURY TO OR DEATH OF PERSONS AND LOSS OR DAMAGE TO PROPERTY, AND INCLUDING, WITHOUT LIMITATION, ATTORNEY FEES, EXPERT FEES, AND ALL COURT COSTS AND OTHER EXPENSES INCURRED, ARISING OUT OF, RESULTING FROM, OR IN ANY WAY CONNECTED WITH, LESSEE'S OPERATIONS AND ACTIVITIES ON THE LAND OR ANY ADJACENT OR POOLED LAND OR LESSEE'S MARKETING OF PRODUCTION FROM THE LAND OR ANY POOLED LAND OR ANY VIOLATION OF ANY ENVIRONMENTAL REQUIREMENTS IMPOSED ON LESSEE. AS USED IN THIS PARAGRAPH, THE TERM "LESSEE" INCLUDES LESSEE, ITS AGENTS, EMPLOYEES, SERVANTS, INDEPENDENT CONTRACTORS, AND ANY OTHER PERSON ACTING ON ITS BEHALF OR UNDER ITS DIRECTION AND CONTROL, WHETHER ACTING WITHIN THE SCOPE OF THEIR EMPLOYMENT OR NOT, AND WHETHER NEGLIGENT OR NOT.
9. Lessee must comply with all valid laws, ordinances and regulations, whether state, federal or municipal, applicable to the premises. The use which lessee makes and intends to make of the premises will not result in the disposal or release of any hazardous substance or solid waste on or to the premises. In the event that any hazardous substances, solid wastes or other pollutants are disposed or released on and/or under the premises resulting in the contamination or pollution to the premises or any adjoining property, arising out of said contamination or pollution, caused by or consented to by the lessee, then lessee shall indemnify and hold harmless the lessor and lessor's heirs, executors, administrators, successors, and assigns, from and against any and all liability from the rules and regulations of the Texas Railroad Commission, the comprehensive environmental response, compensation, and liability act of 1980, the resource conservation and recovery act of 1976, or any other state or federal statute, rule or regulation now in existence or hereinafter enacted relating to such substances or waste and lessee has the absolute responsibility for all cleanup of said pollution or contamination or reclamation of the premises and all costs and expenses thereof. Lessee shall conduct all activities so as not to pollute or contaminate all fresh water sources including adjacent or nearby lakes and streams.
10. In the event that the leased premises are subject to covenants, deed restrictions, drilling ordinances, permit requirements from any authority, or any other impediment that would not permit directional or horizontal drilling methods from a location outside the subdivision or addition identified in the leased premises or on additional tracts with which the Leased premises are pooled, then Lessor hereby consents to and irrevocably designates Lessee as Lessor's agent to acquire permits and/or take steps to amend, modify or change any covenants, deed restrictions, or remove any other impediment using lawful means so as to allow directional or horizontal drilling methods from locations outside the subdivision or addition described in the leased premises. Lessor further agrees to allow a high impact drilling permit in the event that one is required to develop the mineral rights, and authorizes Lessee to represent to any authority that such consent has been granted. Lessee shall be responsible for all cost and expense securing any such change and shall hold harmless and indemnify Lessor from any claims and expense incurred in securing any amendment, change, modification or permit.
11. The leased premises includes all of Lessor's interest in and to the adjacent roads, streets, alleys, any easements, rights of way, tracts held in common and any other adjacent or nearby tracts of land in which Lessor holds an interest in the oil and gas and other minerals.
12. Upon the expiration of the primary term of this Lease or any extension thereof, this Lease shall terminate as to all depths lying one hundred feet (100') below the stratigraphic equivalent of the base of the deepest formation from which any well commenced in the primary term or any extension thereof is drilled and completed as a well capable of commercial production in paying quantities on any lands pooled with all or part of the Land, provided, however if Lessee is then engaged in operations on lands pooled with the leased premises, this Lease shall remain in full force and effect as to all depths so long as no more than ninety (90) days elapse between operations.
13. Notwithstanding anything to the contrary in this Lease, Lessee shall not enter upon the surface of, cross over, place any structure or building upon or conduct any operations (except for geophysical/seismic operations as stated below) on the leased premises. Lessee shall only develop the leased premises by pooling as provided herein, or by directional or horizontal drilling commenced from a surface location on other lands. Lessee shall make all reasonable efforts not to use residential or neighborhood streets or thoroughfares in developing the leased premises, and lands pooled therewith, or otherwise.

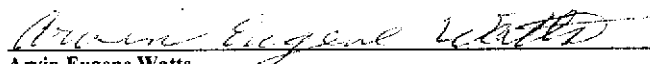
Lessee shall not have or acquire any rights in and to the water from the leased premises. No surface water or underground fresh water from the leased premises will be used for any reason, including water flood or pressure maintenance purposes. Lessee shall comply with all applicable rules on disposition of salt water, brine, or other fluids utilized in or resulting from operations, and shall not cause or permit any such substances to damage or pollute the surface of the leased premises or any fresh water sands lying thereunder. The leased premises shall not be used for saltwater disposal.

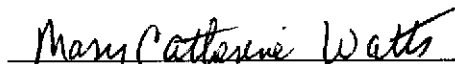
As provided above, Lessee shall have the right to conduct geophysical/seismic operations, but only by utilizing the vibroseis method, and Lessee shall pay for all actual damages incurred to the leased premises which directly result from such geophysical seismic operations.

Nothing in this lease shall be interpreted as a waiver by Lessor of any setback or other requirements under the drilling or other applicable ordinances of the City of Everman.

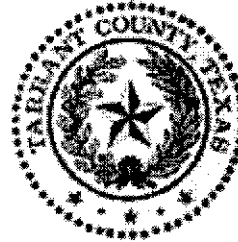
14. Noise levels associated with Lessee's operations related to the drilling, completion and reworking of wells shall be kept to a reasonable minimum, taking into consideration reasonably available equipment and technology in the oil and gas industry, the level and nature of development and surface use elsewhere in the vicinity of Lessee's drill sites and the fact Lessee's operations are being conducted in or near an urban residential area. If Lessee utilizes any non-electric-powered equipment in its operations, including but not limited to compression equipment, Lessee shall take reasonable steps to muffle the sound therefrom by installing noise suppression muffler or like equipment.
15. Lessor acknowledges that the terms of this lease, the amount of the royalty and bonus paid hereunder, and all other terms negotiated with Lessee and the Everman (herein the "Negotiated Terms") with respect to this lease, were obtained as a result of negotiations between Lessee and the Everman Holdout Group ("EHG"), consisting of a committee of unpaid volunteers including Margaret Sides, Betty Meininger, Rae Barnes, Catherine Watts, Daniel Villavicencio, Pat Maloney (hereafter called the "EHG Negotiating Committee"). In consideration of the efforts spent by the EHG and the EHG Negotiating Committee in negotiating and obtaining the Negotiated Terms on behalf of Lessor and other property owners, Lessor, on behalf of the Lessor and Lessor's agents, spouses, co-owners, predecessors, parents, subsidiaries, affiliated corporations or other affiliated entities, successors, partners, principals, assigns, attorneys, servants, employees, heirs, consultants, and other representatives, does hereby release and forever discharge EHG and the EHG Negotiating Committee from any and all claims, demands, obligations, losses, causes of action, costs, expenses, attorney's fees, and liabilities of any nature whatsoever, whether based on contract, tort, statutory or other legal or equitable theory of recovery, whether known or unknown, past, present, or future, which Lessor has, has had, or claims to have against EHG and the EHG Negotiating Committee, which relate to, arise from, or are in any manner connected to (i) the Negotiated Terms, or (ii) the negotiation of the Negotiated Terms, (iii) the inclusion and/or omission of any terms within the Negotiated Terms, or (iv) any and all representations made prior, during, and subsequent to Lessor's execution of this Lease.

SIGNED FOR IDENTIFICATION:


Arvin Eugene Watts


Mary Catherine Watts

End of Exhibit "A"



THUNDERBIRD OIL AND GAS LLC
515 FOURTH ST

GRAHAM TX 76450

Submitter: THUNDERBIRD OIL AND GAS LLC

SUZANNE HENDERSON
TARRANT COUNTY CLERK
TARRANT COUNTY COURTHOUSE
100 WEST WEATHERFORD
FORT WORTH, TX 76196-0401

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By: _____



D209001391

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